UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
LIMITED

TD/B/WG.4/L.1/Add.1
18 December 1992

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Ad Hoc Working Group on Expansion
of Trading Opportunities for
Developing Countries
First session
Geneva, 14 December 1992
(Agenda item 6)

DRAFT REPORT OF THE AD HOC WORKING GROUP ON EXPANSION OF TRADING OPPORTUNITIES FOR DEVELOPING COUNTRIES

Held at the Palais des Nations, Geneva,
from 14 to 18 December 1992

CONTENTS

Chapter		Paragraphs
I.	Establishment of the work programme (continued)	11 - 15

GE.92-53221 (E)

Chapter I

ESTABLISHMENT OF THE WORK PROGRAMME OF THE WORKING GROUP (agenda item 3) (continued)

11. The representative of the International Trade Centre UNCTAD/GATT (ITC) recalled that over the past 28 years it had been working exclusively for, and often in, developing countries in the field of trade promotion. ITC became a joint subsidiary organ of UNCTAD and GATT in 1968. Since 1979, in addition to technical cooperation activities for export promotion and export development, ITC had also been actively engaged in the rationalization of import operations and improvement of import techniques. Hence, it welcomed the opportunity to share with the members of the Ad Hoc Working Group the experience and expertise it had gained over the years. ITC had consistently been working in close association with UNCTAD on many projects and technical cooperation activities. ITC had found that trade expansion in developing countries normally started - both at the macro and micro-economic levels - with the assessment of export opportunities. This was followed by the development of adequate export supply capacity which took place within the context of national policies, the latter not being within ITC's mandate. Market access had both trade-policy and operational export marketing components.

12. Once trade policy had been established, it should be implemented through a trade strategy related to the export and import operational aspects, both of which were linked. ITC would be pleased to share its experience in the following substantive areas: determination of national strategies for trade promotion and export development, including essential interaction between government and the private sector; the choice of export industries and products for export promotion and export development; the determination of export potential at national and enterprise levels; the setting up of national trade promotion institutions and necessary support services provided to the business community (e.g. export financing, packaging, export quality management, costing, pricing, trade fairs, overseas commercial representation, international physical distribution, etc.); joint ventures with developed or other developing countries to acquire technological and trading capability or aimed at export-oriented investments; the promotion of small and medium-sized export enterprises, including on a joint venture basis with foreign partners; the contribution of imports to export development (imports of raw materials,

capital goods and spare parts for industry, infrastructure and services formed the bulk of imports of developing countries and were critical to export competitiveness; moreover under import liberalization schemes, the issue was not so much adequate volumes of imports as adequate value for necessary imported goods and services; this underlay the absolute necessity to improve import planning, purchasing performance and overall supply management in developing countries); the assessment of world export market opportunities for specific products and product groups of developing countries, including in other developing countries; the specific development and export promotion of environment-related technologies and products in developing countries; the promotion of export/import trade between developing countries, particularly inside subregional economic groupings such as PTA, CEAO, ECOWAS, etc.; all aspects of export promotion and marketing such as those listed in paragraph 51 of TD/B/WG.4/2; the strengthening of chambers of commerce, industry and trade associations as promoters and supporters of the exporting/importing business community; the establishment of trade information systems in developing countries, dissemination of information and adequate utilization for export or import decision-making; the study of implications at the microeconomic level of structural adjustment policies being implemented at macroeconomic level. Work in this area had been undertaken by ITC jointly with the World Bank and UNDP. Overall, ITC stressed that trade takes place at the enterprise level, which should be the focus of attention for all those involved in the expansion of trading opportunities. One of the essential prerequisites for success in international trade was the development of human resources at all levels. ITC had considerable experience in this area. Finally, ITC reiterated its support to the Ad Hoc Working Group, and to the UNCTAD secretariat, to the extent that its financial and human resources and constraints would realistically permit.

13. The representative of the International Monetary Fund (IMF) stated that the short-term outlook for the world economy described in TD/B/WG.4/2 had worsened. Thus, world output in 1992 would rise by just under one per cent; in 1993 the rate of growth would be only about 2.25 per cent [almost one percentage point less than had been projected only two months ago]. This downward revision obviously reflected a deterioration in the growth outlook for developing countries, if to a lesser extent than for the developed countries. Likewise, the volume of world trade would expand less in 1993 than earlier projected, albeit by a considerable 5.75 per cent, with developing

countries increasing their import growth from just over 8 per cent in 1992 to 9.50 per cent in 1993. While the longer-term prospects remained less gloomy, the problem was how to proceed. For this reason, agreements about policy strategies were important. Macroeconomic stabilization was a sine qua non for sustained growth and trade performance. It could not be achieved in an environment of structural imbalance, impediments to the transmission of supply and demand signals, disfunctional incentive structures or, in short, domestic resource misallocation. Experience had shown that satisfactory sustained growth depended on simultaneous policy action promoting stabilization and structural reform. Chile's experience was a notable success since its growth performance had outstripped that of other developing countries in the western hemisphere in every year since the reform started except 1984-1985. However, in judging the effects of reform, the degree of misadjustment was relevant. With a less predictable, more gradual reform effort, Chile's performance would probably have fallen well below that actually recorded. A closer look at the success stories of the more recent past showed that gradualism did not work: liberalization of the foreign trade sector had to be comprehensive and rapid; price-based measures had to replace quantitative restrictions and be accompanied by an active exchange-rate policy and tight fiscal and monetary policies. Success was associated with export-stimulating policies and import competition. None of the success stories included import substitution policies or export disincentives. Models of import substitution which presupposed robust export sectors at some later stage did not work today because the lack of competitive intermediary inputs resulted in product quality, design and price structures that were not competitive. India, Brazil and Argentina in their earlier policy modes were examples. The Republic of Korea had often been cited as a model of successful import substitution/export sector selection. Obviously, the Korean circumstances in the 1950s did not reflect a normal development model. More instructive would be its experience in the past three decades. In the 1960s, the import substitution model was abandoned in favour of outward-oriented growth strategy; export incentives were non-discriminatory across sectors and systematically reduced as import barriers fell. In the 1970s, in reaction to external events, there was a reversion to import substitution with respect to heavy industries and a fixed exchange rate policy in the face of large oil price increases which resulted in an overvaluation of the currency. Credit starvation of non-preferred

sectors and severe misallocation of resources followed. Thus, in the 1980s the country once again had to embark on market-oriented trade liberalization, excepting, as before, in the agricultural sector.

14. The representative of the World Bank drew attention to the Bank's considerable experience with issues related to expanding the trading opportunities of developing countries. Bank research had dealt with all three areas covered in the note by the UNCTAD secretariat: macro-outlook, market access and improving the supply capabilities of developing countries. The latter area had been an important element of the Bank's lending operations, as trade policy reform was an important part of structural adjustment and sectoral loans. According to a recent study by the Bank, in the period 1980-1991 over half of adjustment loans had a trade-policy component as part of conditionality.

15. The World Bank's annual review of Global Economic Prospects and the Developing Countries had described the outlook for developing country exports as sensitive to growth prospects in industrialized countries. In the latest review, the Bank had estimated that an annual increase in OECD growth by one percentage point sustained over three years would raise developing country exports by US$60 billion a year - almost equal to the yearly net flow of official development assistance to these countries or the estimated increase in developing country exports from a successful Uruguay Round. However, the global outlook for the 1990s was mixed. The major industrialized countries were likely to grow on average at 2.6 per cent a year, slower than in the 1980s. The real cost of capital was likely to remain relatively high, commodity prices would recover moderately from present low levels and concessional external finance would become scarcer. Nevertheless, real export growth of developing countries was expected to reach 7 per cent per year over the decade, higher than in the past. Growth of manufactured exports would be even higher. Further reductions in industrial country trade barriers would be a major stimulus to exporters in developing countries. In most developing countries, however, trade barriers were generally still high despite the recent trend towards reform. Lowering them could benefit trade among developing countries as well as trade with industrial countries. While in specific products there was always a risk of provoking protectionist reactions, the phenomenal growth of exports from a number of developing countries adopting sensible trade policies and the increase in their share in

industrial country markets suggested that the existing barriers, even in sensitive sectors in the industrial countries, did not prevent the development of export-oriented sectors. The latest global prospects study also stressed that, given the moderate external outlook, success in export expansion in developing countries would increasingly depend on domestic economic policies. Furthermore, competing successfully in the present world of interdependent and global markets would also depend on the ability of developing countries to construct better international communication links and absorb and master new production and management techniques more rapidly.